

TRANSCRIPT

FEDERAL OPEN MARKET COMMITTEE CONFERENCE CALL

July 19, 1979

Prefatory Note

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**FEDERAL OPEN MARKET COMMITTEE  
CONFERENCE CALL  
July 19, 1979**

**PRESENT:** Mr. Miller, Chairman  
Mr. Volcker, Vice Chairman  
Mr. Black  
Mr. Coldwell  
Mr. Rice  
Ms. Teeters  
Mr. Wallich

Messrs. Morris, Roos, and Winn, Alternate Members of the Federal Open  
Market Committee

Messrs. Baughman, and Eastburn, Presidents of the Federal Reserve  
Banks of Dallas, and Philadelphia respectively

Mr. Altmann, Secretary  
Mr. Bernard, Assistant Secretary  
Mr. Petersen, General Counsel  
Mr. Mannion, Assistant General Counsel  
Mr. Axilrod, Economist

Messrs. Kichline, Scheld, and Truman, Associate Economists

Ms. Greene, Assistant Manager for Foreign Operations, System Open Market  
Account

Messrs. Czerwinski, Forrestal, Gainor, and Williams, First Vice Presidents,  
Federal Reserve Banks of Kansas City, Atlanta, Minneapolis, and  
San Francisco respectively

Transcript of Federal Open Market Committee Conference Call of  
July 19, 1979

[Secretary's note: Chairman Miller presided from the Federal Reserve Bank of San Francisco.]

CHAIRMAN MILLER. Good afternoon, ladies and gentlemen. When the FOMC last met we agreed to keep in close touch. There was a request from Bob Mayo and I think perhaps one or two others that we consult again before too long, considering what was happening in the foreign currency markets. We decided to wait until we had the aggregates numbers so we could look at both the aggregates and the foreign exchange situation.

Without further ado, I think the best plan for this meeting is to proceed with Steve Axilrod's report and Gretchen Green's report and then I will indicate possible courses of action for eliciting your comments and suggestions.

Before we do that, let me say that when I arrived in San Francisco last night I had not a hint of--nor was I personally or otherwise involved--in the changes that were announced today. So I'm as surprised as any of you on the line. Please try to keep your cheering and applause at a low level! I don't want to feel sort of hustled out of the Fed because we have this immediate problem! So let's start with Steve.

MR. AXILROD. Thank you, Mr. Chairman. The aggregates have strengthened noticeably over the past week. The data we published for M1 for the week ending July 11 showed a rise from the previous week of about \$3-1/4 billion and the actual level was some \$1-1/2 billion higher than our preliminary estimate. Now, as of July 18, the preliminary data we have suggest a little decline from the July 11 level, but the level still stays at about \$1 billion higher than we had earlier estimated for the week of the 18th. This means that the July M1 [growth] estimate rises from 8-1/2 percent to a little over 11 percent. I don't mean to sensationalize but if that holds up, that would mean that in three of the last four months M1 grew at double-digit rates of increase. Of course, that follows a very weak first quarter. Keeping with an August rate of growth of our fairly normative 3 percent--that is the 3 percent we had last time--the two months together would be a 7 percent rate of growth in M1 and that would be above the 2-1/2 to 6-1/2 percent range that the Committee had decided upon [at its meeting on July 11].

Time and saving deposits also have remained generally strong and M2 is high relative to its range. For July we're now estimating a 13 percent rate of growth; for August, 8 percent. For the two-month July-August period, that's 10.5 or 10.6 percent depending on how the rounding falls. And that compares with the range of 6-1/2 to 10-1/2 percent that the FOMC had set at its last meeting. The FOMC had [adopted] a money market directive, which of course means that any movement in the funds rate [objective] would not occur until the aggregates were approaching or at the limits of their ranges. Consistent with that directive, I believe it would be appropriate--unless the directive were changed--for the Desk's funds rate objective to rise from the current level of 10-1/4 percent to close to, if not

at, the upper end of the 9-3/4 to 10-1/2 percent funds rate range set by the Committee. Personally, Mr. Chairman, I would recommend to the Committee a 10-1/2 percent rate at this point. The aggregates are right at the [tops] of the ranges--actually above in one case. The funds rate averaged 10.35 percent last week and I believe there would be little to gain by an effort to fine-tune it somewhere between 10-1/4 and 10-1/2 percent. That completes my report on the aggregates and their relation to the directive, Mr. Chairman.

CHAIRMAN MILLER. Thank you very much, Steve. Gretchen, are you on? Could we have your report on the foreign exchange market, please?

MS. GREENE. Yes, I am. Can you hear me?

CHAIRMAN MILLER. We hear you fine here in San Francisco.

MS. GREENE. If I may, I'd like to bring the members of the Committee up-to-date on the events since we last talked on Tuesday. I should say that following the news of Tuesday afternoon the dollar came under intense pressure once again, primarily in the Far East on Tuesday night. The magnitude of our intervention operations in that market Tuesday night and a quick follow-up by the Bundesbank in Frankfurt the next morning impressed the market and helped to quell some of the immediate pressure. Since that time the market has technically been in better balance, but the environment and sentiment continue to be extremely bearish for the dollar. Market participants, commercial [firms], and investors are reporting that they are making a hard reassessment of the dollar's prospects and the implication of those prospects for their own operations. Even the promise offered a couple of weeks ago that a recession might help us on the inflation front and on our trade account is a promise that is quickly fading away. The one thing helping us in the past day or so has been the expectation--[which] has been affirmed over the past hours--that the heavy intervention the market has detected will soon be followed by some other kind of package. Parallels are being drawn between this period and the period leading up to November 1 of last year.

In terms of our operations, the Desk has sold \$450 million worth of marks since we last spoke on Tuesday. This brings our intervention since Sunday night to almost \$1.2 billion, which has been equally shared between the System and the Treasury. Since mid-June the net intervention by the United States has been \$3.6 billion. This compares to the \$4.1 billion from our 3 partners in the November 1 package-- for Germany and for Switzerland. And we should not overlook, however, the contribution in terms of official dollar purchases by the Bank of England of during that period. Of the \$3.6 billion of intervention we have done, \$1.5 billion has been on behalf of the System. That has been entirely financed by swap drawings on the Bundesbank. The \$2.1 billion done for the Treasury has been financed largely out of balances the Treasury had warehoused at the System. This brings the Treasury's balance to more than a billion marks short of their liabilities under the Carter bonds. That's all I have to report, Mr. Chairman.

CHAIRMAN MILLER. Thank you very much, Gretchen. Well, ladies and gentlemen, it seems to me--since the growth of the aggregates now appears to be over our upper limits--that we have a

condition where, in the absence of overriding instructions, the Desk would follow the directive and move the fed funds rate up. I would like to outline some possibilities for consideration and then go around and get your reactions. One possibility is to [issue] no new instructions. The Desk would therefore interpret the directive, as Steve was suggesting, as meaning that the fed funds rate should be moved up to 10-1/2 percent.

Let me say it this way instead. The first alternative is to give overriding instructions to keep the fed funds rate where it is. The second alternative is to let it go up [in accordance] with the directive. The third alternative would be to let the fed funds go up with the directive to 10-1/2 percent and very quickly move the discount rate to, say, 10 or 10-1/4 percent to close the widening gap between the discount rate and the fed funds rate. This would involve some tightening and some signal, which would not be tremendously dramatic. Another possibility is that we could believe that we not only have aggregates problems but international or foreign exchange market problems and perhaps we ought to take a more forceful action--move both the fed funds rate and the discount rate up further.

I am not at the moment sure what the [Committee's] sentiment is. My [inclination] is that the minimum we should do is to follow the directive under these conditions. And should we do that, it seems that a discount rate increase is likely because a 1 percent gap [between the two rates] is very large and undoubtedly will be misinterpreted unless we do something to [reduce that] margin. So with those general comments, what I'd like to do is run through the list and see how you all feel about it. I'll start down the list I have here; it may not be in accordance with roll call [order] but I'll do my best. Paul Volcker.

VICE CHAIRMAN VOLCKER. I basically come out with your intermediate position, Mr. Chairman, as a logical course. I could rather easily be talked into your last position but I don't think we should back down on the directive now. I don't think we should do a discount rate change without a fed funds rate change. I would think, given the domestic and monetary and foreign exchange objectives, that your intermediate proposal might be a reasonable position. But I could be persuaded to do more.

I might add one other point. This question on the discount rate came up this afternoon, as it always does at our directors' meetings. There was some concern expressed, which I share, that for this kind of action to be effective it shouldn't be a source of controversy with the Administration; it should look like an integrated economic policy. Perhaps recent events have taken care of that. But I just mention that [taking] some Federal Reserve action and then getting a lot of controversy about it may not be helpful, unless [the action] were bigger than what I'm talking about.

CHAIRMAN MILLER. Paul, I think your comment is well taken. If we are going to take any monetary action, it might be [useful] to touch base with the Secretary of the Treasury and get it coordinated. Well, we will go back [to my list]. Bob Black.

MR. BLACK. Mr. Chairman, I lean toward the hawkish side on this. I think we ought to put the fed funds rate up perhaps a half

point and move the discount rate up a full percentage point. And I'd raise the fed funds rate range to, say, 10 to 11 percent or something of that sort.

CHAIRMAN MILLER. Thank you. Phil Coldwell.

MR. COLDWELL. Mr. Chairman, as far as the Open Market Committee's action, which is all I would like to comment on at the moment, I would prefer that we move [in conformance] with the current directive. I'd reaffirm that directive and then have the Board take a look at a discount action as [the requests] come in tomorrow.

CHAIRMAN MILLER. Phil, would you be seeking a discount rate [action by] the Board tomorrow?

MR. COLDWELL. Well, I think we really need [a discussion among the] Board members of whether the Board itself wishes to approve any kind of discount rate action. If it does, then I'd try to seek a broader action rather than just [act on the pending request of] one Bank.

CHAIRMAN MILLER. Thank you. Emmett Rice.

MR. RICE. Mr. Chairman, I think we should stay with the directive and that means to me that we should let the fed funds rate go up to 10-1/2 percent in accordance with the suggestions that we have heard. I guess this is the middle range recommendation. At this time, I would not like to see an increase in the discount rate. I don't know if it's possible, in lieu of an increase in the discount rate, to suggest to the Federal Reserve Banks that they make access to the discount window less automatic. I don't know how feasible that is. I recognize that with the rise in the federal funds rate we increase the spread between the discount rate and the funds rate and thereby provide an additional incentive to the commercial banks to use the discount window. I think that should be discouraged if at all possible. Nevertheless, I would not want to discourage it by raising the discount rate at this time. I would, however, like to see the funds rate rise a quarter point. Thank you.

CHAIRMAN MILLER. Thank you, Emmett. Nancy Teeters.

MS. TEETERS. Mr. Chairman, I am opposed to changing [the funds rate]. It seems to me, given the state of the underlying domestic economy, that we are going to be raising the funds rate and it's just going to be a matter of days until we have to turn around and pull it back down again. I think we are better off riding out the international storm. Other things are in such a state of flux that it would signal a supreme lack of confidence in what is going on here in the city of Washington at the present time. I think we are better off just staying still. That's all I have.

CHAIRMAN MILLER. Okay, Nancy. Henry Wallich.

MR. WALLICH. I see the need to move the funds rate on account of the behavior of the aggregates. The exchange markets have not done anything immediately and visibly that would call for action but I think there is accumulating malaise there and if we don't act, we will probably see a move [in the dollar] and will have to take

costly counteraction. Putting those two things together, I would say: Raise the funds rate by 1/4 percentage point, as per the directive; move the discount rate up 1/2 percentage point; and urge the Treasury--as a sort of blessing to the action--to increase its sales of gold to the old level.

CHAIRMAN MILLER. Thank you, Henry. Larry Roos.

MR. ROOS. I would recommend that we follow the directive--let the fed funds rate move to 10-1/2 percent--and that we raise the discount rate 1/2 point.

CHAIRMAN MILLER. Thank you, Larry. Willis Winn.

MR. WINN. Mr. Chairman, I urge that we follow the directive and permit the funds rate to rise to 10-1/2 percent. And then I would urge that we change the discount rate. In the announcement, however, I would focus on the behavior of the aggregates. That gives us the flexibility to back down in response, hopefully, to better behavior [of the aggregates] and the underlying economic situation. But I think we have to give some signals to the international markets if we are going to stem this dollar inflow. We certainly can't peg [the dollar]; we shouldn't peg it anyway. But we can't peg it, I think, just by direct intervention with no signal or we are going to find more funds flowing in than we can possibly handle.

CHAIRMAN MILLER. Thank you, Willis. Ernie Baughman.

MR. BAUGHMAN. Mr. Chairman, I think the minimum in the circumstance should be a quarter point move in the funds rate and a half point move in the discount rate. And I think Henry Wallich's suggestion of something from the Treasury with respect to gold sales would also provide a significant indication of the Administration's support and participation.

CHAIRMAN MILLER. Thank you, Ernie. Dave Eastburn.

MR. EASTBURN. My preference among the choices--

CHAIRMAN MILLER. Dave, we are not hearing you very well. Before you comment, I hope you will [discuss your own preferences] and not feel bound by the choices I talked about.

MR. EASTBURN. Well, I was just about to do so. Can you hear me now? I was saying that my preference would be to do nothing at the moment and wait a little while. But if action is to be taken, I think the appropriate move is to raise the discount rate. I say that because I think that would be an effective signal internationally and would follow the directive up. I would announce it on the basis of the dollar problem.

CHAIRMAN MILLER. Thank you, Dave. Frank Morris.

MR. MORRIS. Mr. Chairman, the amazing strength in the aggregates has changed my position. I would be for an increase in the funds rate to 10-1/2 or 10-5/8 percent and a move in the discount rate to 10 percent. I think Henry's idea of getting the Treasury to announce simultaneously an increase in gold sales is a very good one.

CHAIRMAN MILLER. Thank you, Frank. I believe we have from Kansas City Henry Czerwinski. Henry, are you there?

MR. CZERWINSKI. Yes, Mr. Chairman. We would support an increase in the federal funds rate to 10-1/2 percent. We also believe that there should be an adjustment upward in the discount rate by at least 1/2 percentage point on [the basis of the widening gap] but there are other good reasons to boost the discount rate as well.

CHAIRMAN MILLER. Thank you, Henry. Bob Forrestall in Atlanta.

MR. FORRESTAL. Yes, Mr. Chairman. In view of the difficulties in the foreign exchange markets, coupled with the rise in the money supply figures that were published, I believe that a quarter percentage point increase in the federal funds rate would be appropriate. We also would strongly support a discount rate increase to 10 percent. The 10 percent rate can be justified on technical grounds if none other, but there are certainly compelling reasons to give a signal to the foreign exchange markets at this point.

CHAIRMAN MILLER. Thank you, Bob. Tom Gainor in Minneapolis.

MR. GAINOR. Mr. Chairman, for the reasons already stated we would favor a 10 percent discount rate and a 10-1/2 percent fed funds rate.

CHAIRMAN MILLER. I thank you, Tom. John Williams here in San Francisco.

MR. WILLIAMS. Yes, I would agree with Tom Gainor that for all the reasons stated we should go to 10-1/2 percent on fed funds and move the discount rate up to 10 or 10-1/4 percent.

CHAIRMAN MILLER. Unless I counted wrong, I believe I've covered all participants--Governors and either Presidents or First Vice Presidents. Has anyone been omitted? My list seems to be complete.

SPEAKER(?). You didn't hear from Chicago, Mr. Chairman.

MR. SCHELD. Well, Mr. Mayo and Mr. Doyle are away. This is Karl Scheld.

CHAIRMAN MILLER. Oh, fine. What would Chicago like to say?

MR. SCHIELD. The position hasn't changed here. We prefer to stay with the directive, moving to 10-1/2 percent on the fed funds rate and moving up 1/2 point on the discount rate.

CHAIRMAN MILLER. All right, I think that does it. I'm sorry I missed Chicago. In going back and recapping, it seems to me that from the FOMC point of view the reaction was overwhelmingly to follow the directive and go up to 10-1/2 percent on fed funds. The sentiment for perhaps going a little [beyond that] didn't seem to be supported throughout the Committee. So, for FOMC purposes, assume that this is a consultation and in the absence of alternative instructions we will



follow the directive and go to 10-1/2 percent. Let's put it this way. Does anyone on the FOMC voting group dissent from that?

VICE CHAIRMAN VOLCKER. I don't dissent, Mr. Chairman, but it could be interpreted, I suppose, consistent with the directive that it's a rather firm 10-1/2 percent. In other words, 10-1/2 percent is kind of a floor.

CHAIRMAN MILLER. I think the directive carries it to 10-1/2 percent, which is barely over what it is [now]. I don't think we'll keep consulting. I don't mean to hedge it but a weak 10-1/2 or a strong 10-1/2--

VICE CHAIRMAN VOLCKER. Well, you are refining it anyway. I'm happy.

MR. MORRIS. We have had a very firm 10-1/4 percent, so it seems to me that a firm 10-1/2 percent would be appropriate.

CHAIRMAN MILLER. On the matter of the discount rate, of course, it is the prerogative of the Board of Governors to act on the recommendation of one or more [Reserve Banks]. But I wanted to get the sentiment of the FOMC because I think it bears on how we fall. In terms of the total System response on this telephone call, there seems to be overwhelming support for moving to at least 10 percent on an alignment basis or on the basis of [the monetary aggregates] or on the basis of the international [situation] or for all three reasons.

However, I am not sure that sentiment showed up among the Governors [as a group]. Phil didn't express [his view] and Henry did. Nancy and Emmett said no change in the discount rate. I'm not sure where the Governors are coming out. We have to leave that in their laps to decide in view of the discussions of the whole group and what is going to [occur] once we have a 10-1/2 percent fed funds rate. They will decide what is then appropriate. If, however, the Governors begin to believe that an alignment is desirable, I think Phil's point is well taken that we should try to make that a System-wide response and give all the Banks as much chance as possible to be in on it.

I don't know what is [the best way to proceed]. I'd merely suggest that the Governors talk about this among themselves and perhaps I could call in the morning and see if there is anything that I should be doing. I'll leave it to the Governors now, if they'd like to give me any advice. Phil, do you have any suggestions?

MR. WALLICH. Bill, could I say that I think it's important to get the two actions together, as far as the markets seeing them, because they don't understand the reasons and the mechanics by which we operate. Perhaps we'd be able tonight to get the Presidents ready to [catch] up with their boards of directors and have something ready early tomorrow morning.

CHAIRMAN MILLER. Let's see. We have five Board members [available today]; I'm here and four of you are there. Chuck is not participating at the moment. I guess he was not available. Henry, I don't disagree with you. I think it's going to be very strange if we have a 1 percentage point spread between the discount rate and the federal funds rate; it will be misinterpreted. Nonetheless, it

depends upon what the Governors as a body want to do. So, Phil, how do you feel?

MR. COLDWELL. Mr. Chairman, may I suggest that after we finish our FOMC discussion you call in and we could hold a brief Board meeting?

CHAIRMAN MILLER. I think that would be a very good idea.

MR. COLDWELL. We could talk about it then.

CHAIRMAN MILLER. I am trying to sense whether you'd rather do it now or in the morning, but I gather if the directors are willing--. Why don't we all get off this call and why don't you call me back in San Francisco and we'll just pick up from here.

MR. ALTMANN. Mr. Chairman, this is Murray Altmann. When this is concluded if you hang up and we disconnect the telephonic system, I can get you back on just by calling the San Francisco line.

VICE CHAIRMAN VOLCKER. If I may just add a thought here: The Treasury financing is coming up pretty soon. So that is a reason, if there's going to be action, to get it done quickly.

MR. COLDWELL. That's right.

VICE CHAIRMAN VOLCKER. I certainly agree with what Henry says that the actions will reinforce each other psychologically to the extent that they come together.

MR. COLDWELL. There is one other point, Mr. Chairman. Before--

MR. BAUGHMAN. With the situation here, it seems to me that it would be quite unfortunate if Reserve Bank directors were to send in recommendations for increases in the discount rate now and they were not approved.

MR. COLDWELL. That was the reason we wanted to discuss it, Ernie.

MR. BAUGHMAN. Tomorrow is Friday and we will need to get going first thing in the morning to get--

CHAIRMAN MILLER. I think the answer is that we should have a conference of the Governors now. If we decide that we need to close the spread, then we need to get back to you tonight, I think.

MR. COLDWELL. Yes, I agree.

CHAIRMAN MILLER. That way we will act with some concert. Is there anything else anyone would like to cover at this point?

MR. COLDWELL. Mr. Chairman, this is Phil Coldwell. I'd like to suggest one thing. Perhaps the FOMC might wish to look at lifting the ceiling on its fed funds range to allow the rate to go to 10-3/4 percent in the event things turn even more difficult.

CHAIRMAN MILLER. Well, I'm open to suggestions on that. Of course, the next time we'll have a look at [new data on] the aggregates will be a week from now. Are you suggesting, Phil, that the range be changed now or changed [next week]?

MR. COLDWELL. Well, I don't think we have to have a vote to change it if we just have an understanding of some leeway above the 10-1/2 percent if it became necessary for international purposes.

CHAIRMAN MILLER. If it becomes necessary for international purposes, then I think we ought to poll the FOMC. It seems like somewhat of a blank check to say "go over 10-1/2 percent" without any feeling based on the international situation. I'm not sure how the Desk could respond to that. And I'm not sure the Chairman should give instructions when he doesn't have the consensus of the Committee.

MR. COLDWELL. I was trying to avoid a vote but if you wish to take a vote on it, I would make the motion that we do so.

CHAIRMAN MILLER. Would you put any ceiling on it at all?

MR. COLDWELL. Yes, 10-3/4 percent.

CHAIRMAN MILLER. Well, I'll run down [the list] and see if there's any sentiment for that. Paul?

VICE CHAIRMAN VOLCKER. I would be happy to do it but I don't think it is necessary this afternoon.

CHAIRMAN MILLER. Bob Black?

MR. BLACK. I would favor it, Mr. Chairman.

CHAIRMAN MILLER. Phil Coldwell?

MR. COLDWELL. Yes.

CHAIRMAN MILLER. Emmett Rice?

MR. RICE. No, I would favor staying at 10-1/2 percent.

CHAIRMAN MILLER. Nancy Teeters?

MS. TEETERS. No, I would not change it.

CHAIRMAN MILLER. Henry Wallich?

MR. WALLICH. Yes, I'd go to a range with a 10-3/4 percent ceiling.

CHAIRMAN MILLER. Larry Roos.

MR. ROOS. Yes sir, I would support it.

CHAIRMAN MILLER. Willis Winn.

MR. WINN. I feel the way Paul does. I'm not sure it makes that much difference, Mr. Chairman, but I can't oppose it.

CHAIRMAN MILLER. I believe we have only nine voting members this afternoon and I think I've called on all the voting members. We're missing an alternate for somebody; I don't know who it is. Kansas City?

SPEAKER(?). And Chuck Partee.

CHAIRMAN MILLER. Anyway, I was given a telex showing that 9 voting members, including myself, [would be on this call].

VICE CHAIRMAN VOLCKER. That's correct. You are missing the San Francisco President and his alternate.

CHAIRMAN MILLER. Okay, we are missing the alternate. That means that the vote would be 1,2,3,4,5,6--not counting me--for an increase in the range and 2 against; Emmett and Nancy would not do so. That means that there is a majority to increase it and I'd be willing to go along with that. I think we are going to have to consult before we move it much. Emmett and Nancy, could you go along with it so we would have a unanimous vote?

MR. RICE. No, Mr. Chairman, I wouldn't want to go to 10-3/4 percent at this time.

CHAIRMAN MILLER. All right. Well, this isn't really a vote to go to 10-3/4 percent; this is raising the range so that based on further developments it could go there. Nancy?

MS. TEETERS. Well, Paul sounds as if he is going to 10-3/4 percent. He wants a very firm 10-1/2 percent and that has usually been 10 or 15 basis points above whatever the mark was. No, I can't agree to go to 10-3/4 percent.

MR. RICE. Mr. Chairman, I understand that this is an increase in the range, but if it becomes necessary--if developments in markets change so dramatically that we feel we have to go to 10-3/4 percent--we will have a chance to do that in another meeting.

MR. STERNLIGHT. Mr. Chairman, Peter Sternlight. May I just interject? With respect to any possible implementation of that increased upper end of the range, I think there is the Treasury financing to consider. If you were looking at doing something a week from now, that would be right in the midst of the Treasury auction.

CHAIRMAN MILLER. I think that's right, Peter. And, as I say, I'm not sure that this is necessary. We won't have any new data until next week and we'll be in the [midst of the Treasury] financing. Plus I think we more or less have to consult about these things. Nonetheless, the motion has been made. Unless it is withdrawn, it looks as if there is a majority for it. I am not sure of any procedure other than to say, well, that's the will of the Committee. You have heard the comments. Phil, are you still satisfied that we should set this range even though we are [unintelligible]? Have you had a problem?

MR. COLDWELL. Well, my reason for this, Mr. Chairman, ultimately [relates to] what we do with the discount rate. If it were the sentiment of the full Board to go more than one half percentage

point on the discount rate, then we're stuck with a fed funds rate below or equal to it. I just was trying to give us a little flexibility in the event the Board decided on a discount rate change of larger than a half point.

CHAIRMAN MILLER. Well, [if we were to] change the range, I don't see that the Desk would do anything differently in the next 7 days regardless of what happens to the discount rate. The aggregates are barely above their upper limits and that doesn't call for greater movement [in the funds rate], absent some other directive. So I'm a little confused by this process. But it is a democratic process, so we'll do what the majority thinks is right.

MR. COLDWELL. Well, I sponsored the motion, Mr. Chairman, and if there is a strong feeling of reservation on your part I'll withdraw the motion. I just thought it gave us a bit more flexibility rather than being at the ceiling [of the funds range] so early in the intermeeting period.

CHAIRMAN MILLER. Well, let me say this, Phil. I appreciate the reason and I appreciate the strong support here. But my tendency is not to go off on these things without first having a quick phone call so we can get everyone involved. I would hate to see us publish an interim action right now with dissenting votes. It seems to me that this is a time when we need to unify ourselves. For that reason I am a little reluctant to see us take an action if we are not going to use it, when we have two non-affirmative votes to be reported the next time [the Policy Record is published]. It does not contribute to our overall course of action, so as long as there are dissenters who won't withdraw [their dissents], I would ask that the supporters withdraw at the moment. Let's just leave it that we will be in touch with everybody if this action is necessary. And tomorrow we will start again.

MR. COLDWELL. Well, I'll withdraw the motion, Mr. Chairman.

CHAIRMAN MILLER. Okay, then we will not take any formal action today. We merely had a consultation and then proceeded with implementing the [current] directive. Peter Sternlight, I assume you will be [implementing this] tomorrow?

MR. STERNLIGHT. That's right, Mr. Chairman. Funds were at a 10.40 percent average today. I don't think there will be any great problem.

CHAIRMAN MILLER. Do you need any further instructions or guidance, Peter?

MR. STERNLIGHT. I don't think so.

CHAIRMAN MILLER. All right. If there are no other comments or suggestions, then I'll ask Murray to close off this session and then I'll wait for your return call.

MR. ROOS. Mr. Chairman, do you want us to wait at this line or will you call us in the morning or what?

CHAIRMAN MILLER. I think the decision was made that we'll all hang up now and the Governors will stay in the Board Room. Murray will call me back in San Francisco and we will have a Board of Governors session.

MR. ROOS. Are you coming back to the Presidents?

MR. COLDWELL. Yes.

MR. WINN. Murray, this is Willis Winn. Will you call me at home after 9:30?

CHAIRMAN MILLER. Oh, I'm sorry, the Presidents--

MR. ALTMANN. I think the question is whether the Presidents should stand by. We can get back to you after the Board has consulted. I don't know how long that will take, perhaps not too long.

CHAIRMAN MILLER. It won't take more than 15 minutes.

MR. COLDWELL. No.

MR. ALTMANN. So if the Presidents will stand by in their conference rooms, I can call you back. Do you want to say something, Steve?

MR. AXILROD. Mr. Chairman, I would just like to call to the Committee's attention--I don't believe it requires any action at this point--that there is an intermeeting limit on foreign exchange market operations set by the Committee. That limit is \$1-1/2 billion and there is \$877 million leeway left under that limit. It doesn't require any action today but since the issue was mentioned last week, I wanted to alert the Committee to the possibility that a telegram might be forthcoming in a few days if more intervention of size is required.

CHAIRMAN MILLER. Very good point, Steve. Any further comments? The suggestion is that if the Presidents would continue to be available for the next half hour at their own offices, we will be able to get back to them and tell them the sentiment among the Governors. Any other comments or other questions?

VICE CHAIRMAN VOLCKER. Meanwhile, I think you are a glutton for punishment, Mr. Chairman!

CHAIRMAN MILLER. Well, there are those who say I'm crazy but--

VICE CHAIRMAN VOLCKER. I don't think that. Good luck.

CHAIRMAN MILLER. Thank you.

MR. ALTMANN. Mr. Chairman, this is Murray Altmann. If everyone would take the next call in their conference rooms, we can get everybody on the same circuit. So I would ask you to be present in the conference room.

7/19/79

-12-

CHAIRMAN MILLER. Now you would like us to hang up.

MR. ALTMANN. Yes, sir.

CHAIRMAN MILLER. We are hanging up.

END OF SESSION